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Message Text

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S E C R E T STATE 291580 TOSEC 310276

NODIS

FOLLOWING TEL SENT ACTION SECSTATE FROM MANILA NOV 29:

QUOTE S E C R E T MANILA 18586

NODIS

E.O. 11652: GDS
TAGS: MARR, RP
SUBJECT: PHILIPPINE BASE NEGOTIATIONS

REF: (A) STATE 287549, (B) STATE 287342

1. TO ASSESS LATEST PHILIPPINE POSITION ON MILITARY BASES, MILITARY ASSISTANCE, AND THE APPLICATION OF THE MUTUAL DEFENSE TREATY, IT IS NECESSARY TO START FROM THE PREMISE THAT MARCOS HAD ALREADY DECIDED, SHORTLY AFTER THE U.S. ELECTIONS, THAT HE WISHED TO CONSUMATE HIS NEGOTIATIONS WITH THE INCOMING CARTER ADMINISTRATION RATHER THAN WITH THE FORD ADMINISTRATION. HE CAME TO THIS CONCLUSION NOT BECAUSE HE EXPECTED TO BE ABLE TO OBTAIN A BETTER DEAL FROM THE NEW ADMINISTRATION BUT RATHER BECAUSE, IN TYPICAL FILIPINO PERSONALIZATION OF POLITICS, HE WISHED TO BE SURE THAT THE NEW U.S. ADMINISTRATION, WHICH WILL HAVE THE TASK
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OF EXECUTING THE AGREEMENT, FEELS A SENSE OF RESPONSIBILITY FOR ITS TERMS. ALTHOUGH I HAVE REFRAINED FROM ANY DISCUSSION OF THIS RATIONALE WITH MARCOS DIRECTLY, HE HAS CONDUCTED AN INFORMAL, INDIRECT COLLOQUY WITH ME THROUGH JACK VALENTI, WHO WAS HIS RECENT HOUSE GUEST, IN ORDER TO

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ASSURE (WITH SOME DELICADEZA) THAT WE UNDERSTOOD HIS MOTIVATIONS.

2. SEEN IN THIS PERSPECTIVE, THE AIDE-MEMOIRE DELIVERED BY RUMULO NOVEMBER 23 CAN BE REGARDED, IN THE BEST TRADITION OF THE ORIENTAL BAZAAR, AS A POSITION WHICH IS DELIBERATELY DESIGNED TO BE UNACCEPTABLE TO US, THEREBY BRINGING THE CURRENT PHASE OF NEGOTIATIONS TO A POINT OF SUSPENSION, WITH THE BALL IN OUR COURT. THE FILIPINOS ARE FULLY AWARE THAT AN ANNUAL COMPONENT OF $150 MILLION GRANT MILITARY ASSISTANCE IS CLEARLY OUT OF THE PICTURE, BUT THEIR OVERALL TOTAL OF $2 BILLION FOR FIVE YEARS IS POTENTIALLY CALCULATED IN SUCH A WAY THAT WE CAN APPEAR EVENTUALLY TO COME CLOSER TO THEIR TOTAL THAN OUR PROPOSED TOTAL OF $900 MILLION FOR FIVE YEARS.

3. IN EXPLAINING THIS OBSERVATION, WE SHOULD APPRECIATE THAT THE STRUCTURE OF OUR OWN OFFER, MIXING ECONOMIC AND MILITARY AIDE, IS VERY FLEXIBLE. THE $90-95 MILLION ECONOMIC AID PER YEAR IS DESCRIBED AS CONSISTING OF "DEVELOPMENT AID, PL 480 LOANS, AND SOME EXIM BANK CREDITS." SINCE OUR DEVELOPMENT AID PLUS PL 480 IS PROJECTED TO RUN CLOSE TO $80 MILLION PER YEAR, THIS LEAVES ONLY $10-15 MILLION PER YEAR FOR EXIM CREDITS. IN PRACTICE, OVER THE PAST FIVE YEARS, OUR EXIM LOANS PLUS GUARANTEES TO THE PHILIPPINES HAVE AVERAGED MORE THAN $200 MILLION PER YEAR. IN ADDITION TO THESE CATEGORIES WE COULD TOSS IN OTHER CREDITS, SUCH AS CCC LOANS, WHICH THIS YEAR ALONE AMOUNT TO #62 MILLION. IN SHORT, WE CAN CONSTRUCT AN ECONOMIC PACKAGE, USING ONLY THOSE ITEMS ALREADY SCHEDULED, WHICH COULD BE DESCRIBED AS WELL OVER $1 BILLION OVER THE NEXT FIVE YEARS.

4. PROCEEDING, THEREFORE, FROM THE FACT THAT THE ECONOMIC PACKAGE AS CURRENTLY DESCRIBED, IS LARGELY COSMETIC, WE MUST RECOGNIZE THAT THE ONLY REALLY CRITICAL MONETARY

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ELEMENT IN OUR NEGOTIATIONS IS THE MILITARY AID, AND THAT ITS GRAVAMEN IS THE GRANT MILITARY ASSISTANCE. WE HAVE DESCRIBED THAT AS POTENTIALLY $40 MILLION PER YEAR IN OUR OFFER, ALTHOUGH WE HAVE PRESIDENTIAL AUTHORITY TO GO TO $50 MILLION, AND THAT IS PROBABLY WHERE THE FILIPINOS WOULD BE PREPARED TO SETTLE. ASSUMING THIS SUM WERE MATCHED BY AN EQUAL AMOUNT OF FMS CREDIT AND/OR GUARANTEED LOANS, WE COULD HAVE A MILITARY PACKAGE OF $500 MILLION OVER FIVE YEARS. ADDING THIS TO THE ECONOMIC PACKAGE, WE COULD DESCRIBE A TOTAL OF NEARLY $2.0 BILLION OVER FIVE YEARS, OUR POSITION AND THE PHILIPPINE POSITION, WITH THE WEIGHT CLEARLY IN THEIR FAVOR.

5. SIMILARLY, IN DEALING WITH THE MUTUAL DEFENSE ASPECTS

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OF THE AIDE-MEMOIRE, WE CAN ACCEPT THEIR POSITION WITH SEMANTIC (BUT SUBSTANTIAL) ADJUSTMENTS. "METROPOLITAN TERRITORY," FOR EXAMPLE, CAN BE DESCRIBED AS THE "LAND AREAS" WITHIN THE AREA DELINEATED IN THE TREATY OF PARIS AS AMENDED BY THE US-UK TREATY OF 2 JANUARY 1930. THIS WOULD AVOID A NUMBER OF COMPLEX ISSUES WHICH THE FLIPINOS KNOW WE WILL NOT ACCEPT. WE CAN ALSO ASSURE THEM THAT THE SOUTH CHINA SEA IS IS IN THE PACIFIC AREA. AS FAR AS AUTOMATICITY IS CONCERNED, WE CAN REAFFIRM THE LANGUAGE USED BY DULLES, EISENHOWER AND JOHNSON, BUT MAKE CLEAR THAT IT DOES NOT RPT NOT CARRY AS BROAD A COMMITMENT AS DESCRIBED IN THE AIDE-MEMOIRE. WITTINGLY OR UNWITTINGLY, THE FILIPINOS HAVE MISCONSTRUED THE LANGUATE OF THE WAR POWERS ACT; BUT,AGAIN, IT CAN BE CITED VERBATIM FOR WHATEVER SOLACE IT MAY GIVE THEM.

6. IN SHORT, EXCEPT FOR THE ABSURDLY HIGH GRANT AID COMPONENT ON MILITARY AID, THE FILIPINO AIDE-MEMOIRE IS RATHER SHREWDLY DESIGNED TO PERMIT A CONSTRUCTIVE RENEWAL OF NEGOTIATIONS WHENEVER THE CARTER ADMINISTRATION DECIDES TO TAKE THE INITIATIVE. I BELIEVE THE FILIPINOS WILL GIVE US A FEW MONTHS GRACE, AT LEAST SO LONG AS OUR CURRENT MILITARY ASSISTANCE PROGRAM CONTINUES TO FUNCTION, BUT ASSUME THAT THEY WILL BEGIN TO DEMONSTRATE SOME MEASURE OF IMPATIENCE AS THE SPRING OF 1977 WEARS ON.

7. FROM OUR POINT OF VIEW, THE ISSUE WHICH HAS TO BE
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DECIDED IS WHETHER THE NEW ADMINISTRATION SHOULD JUST PICK UP THE NEGOTIATIONS WHERE THEY LEFT OFF, OR WHETHER IT SHOULD INTRODUCE A NEW ELEMENT. I STRONGLY RECOMMEND THAT WE REEXAMINE A VERY CENTRAL ASPECT OF OUR APPROACH -- THE PROPOSAL TO PROVIDE GRANT MILITARY ASSISTANCE ON AN ANNUAL BASIS. MY REASONS FOR THIS RECOMMENDATION ARE PROVIDED IN THE FOLLOWING PARAGRAPHS.

8. AS DEPARTMENT IS AWARE, PHILIPPINE AUTHORITIES, LED BY DEFENSE SECRETARY ENRILE, HAVE PRESSED HARD FOR AN ARRANGEMENT UNDER WHICH WE WOULD PAY RENTAL, IN THE FORM OF AN ANNUAL CASH GRANT, FOR THE USE OF OUR MILITARY BASES HERE. ONE OF THEIR EXPRESSED REASONS FOR THIS PROPOSAL IS THEIR DESIRE TO TERMINATE THE CURRENT MUTUAL DEFENSE ASSISTANCE AGREEMENT AND THE MAP SYSTEM OF PROCURING MILITARY EQUIPMENT FROM THE UNITED STATES. THE GOP WOULD PROPOSE, INSTEAD, TO ESTABLISH A MILITARY PURCHASING MISSION IN THE UNITED STATES, USING THE ANNUAL CASH GRANT TO FINANCE ACQUISITION OF MILITARY MATERIAL.

9. BECAUSE OF THIS PREFERENCE, THE GOP HAS BEEN LESS THAN ENTHUSIASTIC ABOUT U.S. PROPOSALS TO INSERT AN ARTICLE IN THE MILITARY BASES AGREEMENT BEING NEGOTIATED TO PROVIDE

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FOR A TURKISH-TYPE MILITARY ASSISTANCE PROGRAM, PREMISED
UPON STRICT OBSERVANCE OF ALL MAP REGULATIONS AND PROCEDURES.
IN A SENSE, THE GOP FEELS IT WOULD BE DOING US A FAVOR
TO ACCEPT THIS SORT OF ARRANGEMENT RATHER THAN THE RENTAL
ARRANGEMENT THEY PROPOSE.

10. AT THE SAME TIME, IT IS CLEAR FROM THE RESULTS OF THE
RECENT U.S. ELECTIONS AND THE EXPRESSED SENTIMENT OF THE
U.S. CONGRESS THAT MILITARY ASSISTANCE PROGRAMS, FOR
WHATEVER PURPOSE, WILL MEET WITH LESS FAVOR THAN THEY HAVE
IN THE PAST. MOREOVER, GIVEN THE NATURE OF THE PHILIPPINE
GOVERNMENT AND THE TENOR OF THE HUMAN RIGHTS PROVISIONS
IN THE LATEST FOREIGN ASSISTANCE ACT, IT IS EQUALLY CLEAR
THAT AN ANNUAL APPROPRIATION FOR MILITARY ASSISTANCE FOR
THE PHILIPPINES, UNDER A MULTI-YEAR ASSISTANCE AGREEMENT,
WOULD BE A PAINFUL ORDEAL THAT WOULD BRUISE OUR BILATERAL
RELATIONS INORDINATELY.

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11. IN VIEW OF ALL THESE CONSIDERATIONS, I INFORMALLY
SUGGESTED TO SENIOR OFFICIALS OF STATE AND DEFENSE, DURING
MY CONSULTATIONS IN EARLY OCTOBER, THAT U.S. NEGOTIATORS
OUGHT TO EXAMINE THE PROSPECTS FOR "QUID" TO COVER OUR
MILITARY BASES IN SOME DENOMINATION OTHER THAN MILITARY
EQUIPMENT. I POINTED OUT THAT THE PHILIPPINES, IN ORDER
TO ESTABLISH SOME MEASURE OF SELF-RELIANCE AND INDEPENDENCE
FROM OPEC OIL, NEEDS TO SPEND CONSIDERABLE CAPITAL SUMS
ON ITS DEVELOPMENT OF ENERGY RESOURCES. ITS POTENTIAL,
FOR EXAMPLE, IN GEO-THERMAL POWER IS SIGNIFICANT AND IT
CAN USEFULLY EMPLOY ALMOST ANY ANNUAL SUM WE WOULD BE
PREPARED TO CONSIDER IN GEOTHERMAL POWER DEVELOPMENT OVER
THE NEXT TEN YEARS.

12. I HAVE THEREFORE PROPOSED THAT, INSTEAD OF A
MULTI-YEAR MILITARY ASSISTANCE PROGRAM COMPOSED OF PART
GRANT AND PART CREDIT, WE OFFER AN ASSISTANCE PROGRAM
DENOMINATED EXCLUSIVELY IN ECONOMIC TERMS. THE MAJOR NEW
COMPONENT OF THIS PROGRAM WOULD BE A MULTI-YEAR GRANT RPT
GRANT FOR ACQUISITION OF GEO-THERMAL POWER INSTALLATIONS.
THIS FEATURE OF THE PROGRAM WOULD NOT RPT NOT NEED TO BE
HANDLED THROUGH AID, EVEN THOUGH THE FUNDS MIGHT BE
INCLUDED IN THE FAA LEGISLATION. THE OPERATION COULD BE
DONE ON A STRAIGHT REIMBURSEMENT BASIS TO U.S. CONTRACTORS
AGAINST PROOF OF SATISFACTORY PERFORMANCE IN THE
INSTALLATION OF THE GEOTHERMAL PLANTS.

13. SINCE THIS COMPONENT WOULD BE ON A GRANT BASIS, AND
WOULD BE OVER AND ABOVE OUR NORMAL AID PROGRAMS, IT WOULD
NATURALLY RESULT IN A BUDGETARY AND FOREIGN EXCHANGE
SAVINGS TO THE GOP FOR EXPENSIVE PROGRAMS TO WHICH THEY ARE
ALREADY COMMITTED IN ANY EVENT. THESE BUDGETARY AND FOREIGN

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EXCHANGE SAVINGS COULD CONSEQUENTLY BE USED, IN A FUNGIBLE FASHION, IN LIEU OF THE CASH GRANTS WHICH THE GOP HAS BEEN SEEKING FROM US FOR THE ACQUISTION OF MILITARY EQUIPMENT.

14. THIS SORT OF TRANSACTION WOULD THEREFORE ENABLE US TO TERMINATE OUR GRANT MILITARY ASSISTANCE PROGRAM TO THE PHILIPPINES, PERMIT THEM TO ESTABLISH THE MILITARY PURCHASING MISSION THEY WISH TO INSTALL IN THE UNITED STATES, AND RESULT IN THE DISESTABLISHMENT OF JUSMAG PHILIPPINES.

I WOULD EXPECT THAT, AS ALLIES, THE PHILIPPINES WOULD STILL BE ELIGIBLE FOR FMS CREDIT PROGRAMS, FOR GUARANTEED LOANS, AND, PERHAPS, ALSO FOR SOME GRANT FUNDS WHICH WOULD COVER THE COSTS OF TRAINING FILIPINOS IN U.S. SERVICE SCHOOLS.

15. IN THE LONG RUN, IT WOULD LEAVE IN PHILIPPINE HANDS THE ULTIMATE DECISIONS ABOUT THE AMOUNTS OF MONEY IT WISHES TO SPEND FOR MILITARY EQUIPMENT, THE KINDS OF EQUIPMENT, AND THE ORDER OF PRIORITIES IN ITS ACQUISITION. WHILE IT WOULD, AT LEAST FOR A WHILE, RESULT IN LESS EFFICIENCY, IT WOULD CREATE MORE SEANSE OF SELF-RELIANCE AND RESPONSIBILITY AS WELL AS REDUCE ADMINISTRATIVE FRICTIONS. SINCE IT IS DOUBTFUL THAT PRESIDENT MARCOS WOULD PERMIT THE MILITARY TO REALIZE ALL THE DOLLAR BENEFITS THAT WOULD FLOW FROM THE PROPOSED GEO-THERMAL POWER PROGRAM, IT WOULD PROBABLY ALSO RESULT, IN THE LONG RUN, IN A SMALLER ANNUAL ACQUISTION OF MILITARY EQUIPMENT BY THE PHILIPPINES AND HENCE, LESS CHANCE OF INAPPROPRIATE AND WASTEFUL PROCUREMENT.

16. FINALLY, BY CONCENTRATING ON ELECTRIC POWER GENERATION, THE U.S. WILL BE DOING SOMETHING MORE VITAL FOR THE PHILIPPINES AND MORE LASTING THAN THE PROVISION OF MILITARY EQUIPMENT. IN AN EARLIER GENERATION, U.S. CREATION OF A PUBLIC SCHOOL SYSTEM IN THE PHILIPPINES HAS ENABLED THIS COUNTRY TO HAVE A LITERATE AND SKILLED POPULATION, WELL AHEAD OF ITS NEIGHBORS. BY DEVELOPING AN ELECTRIC POWER SYSTEM, AND IDENTIFYING IT AS A U.S. PROGRAM IN THE PHILIPPINES, WE MAY BE ABLE TO HELP MEET THE MOST PRESSING NEED OF THE CURRENT GENERATION OF FILIPINOS, WHICH IS TO FIND GAINFUL EMPLOYMENT FOR THE HUNDREDS OF THOUSANDS OF THEIR YOUNG CITIZENS WHO ARE ANNUALLY PROVING SURPLUS TO THE NEEDS OF THE AGRICULTRUAL SECTOR AND SEEK INDUSTRIAL JOBS. WITHOUT ELECTRICAL ENERGY, THESE JOBS CAN NOT BE CREATED. WITH IT, PLUS INTELLIGENT LEADERSHIP AND GOOD ORGANIZATION, THERE IS THE PROSPECT THAT THAT THEY CAN BE CREATED.

17. IN GENERAL, I THINK THE AMOUNTS TO BE INVOLVED IN THIS NEW GRANT AID PROGRAM SHOULD BE THE SAME AS WE HAVE BEEN PREPARED TO OFFER IN THE GRANT MILITARY AID PROGRAM -- $50 MILLION PER YEAR. THIS, PLUS THE NORMAL AID, PL 480,

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EXIM, CCC, FMS, AND GUARENTEED LOAN PROGRAMS COULD ADD UP
TO NEARLY $2 BILLION, AS PREVIOUSLY CITED. HOWEVER,
BECAUSE THE GEOTHERMAL PROGRAM WOULD BE BUILT AROUND
CONCRETE PRODUCTION UNITS, THE SUMS TO BE APPROPRIATED
MIGHT HAVE TO BE CAST IN NUMBERS NOT QUITE SO ROUND AS
THE PUTATIVE MILITARY PROGRAM.

18. SINCE THIS RECOMMENDATION IS CAST IN TERMS OF PROPOSALS
FOR THE NEXT ADMINISTRATION, IT IS INAPPROPRIATE TO SUGGEST
THAT THESE PROPOSALS BE DISCUSSED WITH PHILIPPINE
AUTHORITIES AT THIS TIME. HOWEVER, I SHOULD, PERHAPS,
RECORD MY VIEW THAT, AT THE APPROPRIATE POINT, THE ESSENCE
OF THE GEO-THERMAL SCHEME SHOULD FIRST BE RAISED
WITH DEFENSE SECRETARY ENRILE, WHO WOULD BE THE OFFICIAL
MOST DIRECTLY CONCERNED BY ITS IMPLICATIONS AND THE ONE
MOST LIKELY TO GRASP ITS TOTAL IMPORT. SULLIVAN UNQUOTE ROBINSON

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